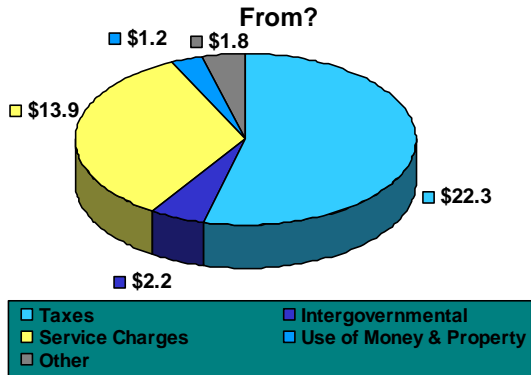


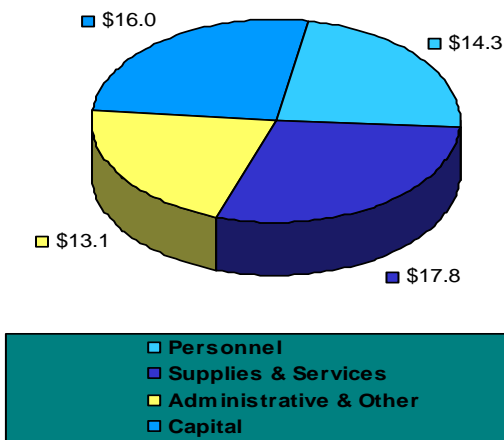
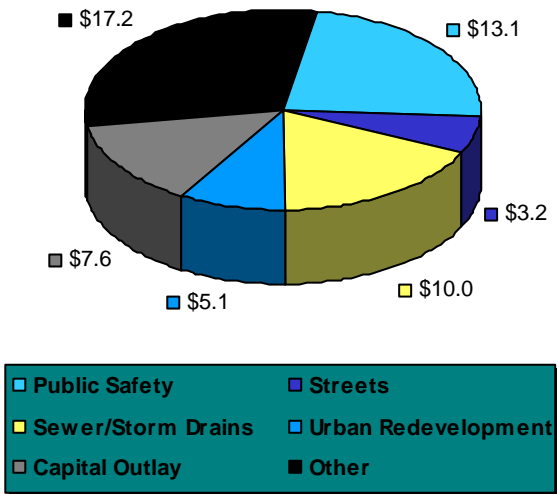


City of Belmont Budget Brief FY 2006

Where Does the Money Come From?



Where Does the Money Go?



Message From the City Manager

Honorable Mayor and Members of the Council:

I am pleased to submit the Proposed FY 2006 Budget your review and consideration.

Summary

After several very challenging years, the City of Belmont's financial position is improved. We believe that the use of the Budget Correction Strategy and other efforts made in prior years has been successful and that the long-term finances of Belmont are now stable, with the budget balanced in both the near and long term. While there are encouraging signs on the horizon, this is still a very difficult time for state and local government finances.

Three factors continue to impact the Belmont budget: the depressed regional economy, cost escalations and the State of California's financial crisis. These factors have dictated that the City make decisive actions to maintain a fiscally sound budget.

Belmont has responded to these challenges with a series of budget corrections in recent years. The two largest were a \$1.3 million package, approved by the City Council in February 2003 and a \$1.5 million package approved in June 2004 as part of the FY 05 Budget. All told, the City has made budget adjustments totaling \$3.4 million over the past three years.

The implementation of these budget correction strategies has not been easy, but the City is in a stronger position for it. While a similar strategy is not required as part of this year's budget package, this budget is based on the premise that these strategies continue for a three-to-five year period.

Message From the City Manager (continued)

Budget Analysis

• Revenues:

General Fund revenues are estimated at \$13.4 million, up \$0.3 million or 2%, from FY 05. The major share of increased revenue is in property tax and vehicle license fees receipts, which are expected to increase by \$164,000 and \$99,000, respectively. All other revenues will, in the aggregate, increase by \$45,000. General Fund revenues support basic services including police, public works, parks & recreation and general government operations.

The General Fund revenues have several components:

Taxes:		\$8.9 million (66%)
	Property Tax	\$2 million
	Sales tax	\$2 million
	Transient Occupancy Tax	\$0.9 million
	Vehicle License Fee	\$1.6 million
	Other Taxes	\$2.4 million
Licenses & Permits		\$0.7 million (5%)
Intergovernmental		\$0.5 million (4%)
Other		\$3.3 million (25%)
TOTAL		\$13.4 million

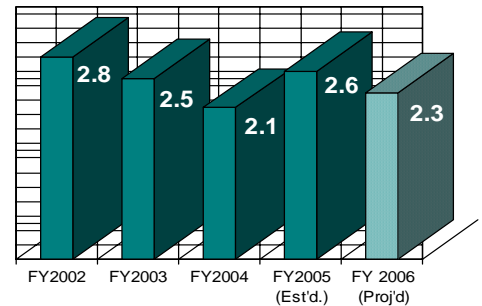
Tax revenue is improving from previous periods. The strongest period of growth is property taxes, which are expected to grow by 9% in FY 06. Due to provisions in state law that allow certain sales to be exempt from taxation, sales taxes are expected to decrease slightly from FY 05 and then grow thereafter.

Total revenues for all funds in FY 06 are estimated at \$41.4 million. Other fund revenues include \$5.7 million for sewer/storm drain operations and construction, \$5.3 million in property taxes to support fire protection services, and \$1.6 million in revenues supporting street maintenance and improvement activities.

General Fund Results & Trends

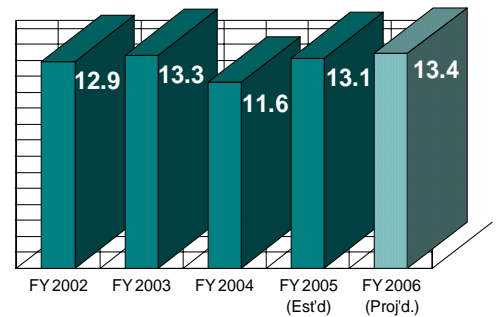
Fund Balance Trends

(in \$ millions)



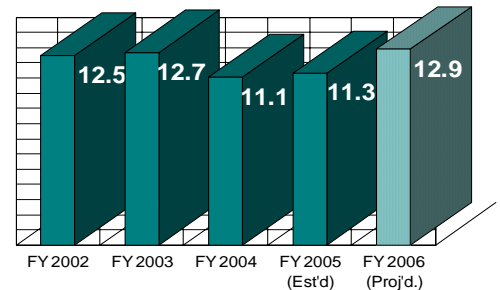
Revenue Trends

(in \$ millions)

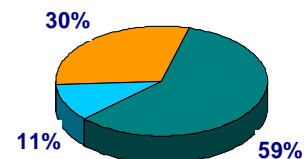


Expenditure Trends

(in \$ millions)



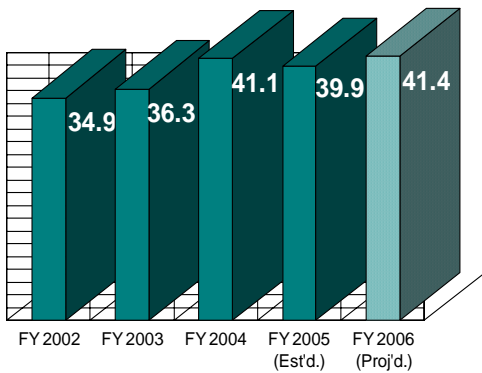
Expenditure by Function



City-wide Results & Trends

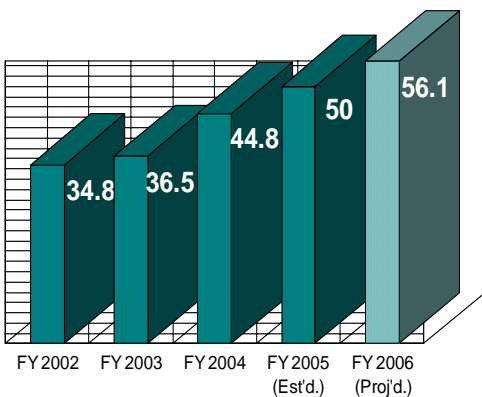
Total City Revenue Trends

(in \$millions)



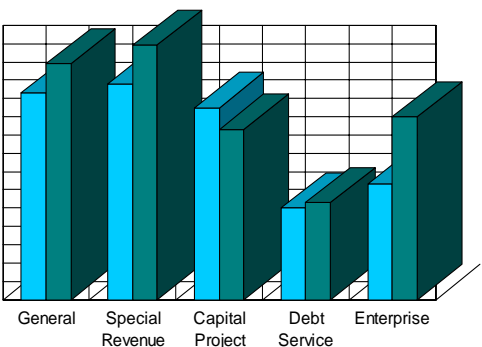
Total City Expenditure Trends

(in \$millions)



Fund Expenditures FY 05 (Est'd) vs. FY 06 (Proj'd)

(in \$millions)



Message From the City Manager (continued)

• Expenditures:

In FY 06, General Fund expenditures total \$12.9 million and increase to \$13.8 million with the inclusion of transfers to subsidize other funds. A major factor in the increase from FY 05 is in employee benefit costs, which are up \$540,000 for retirement and health care.

Total expenditures for FY 06 are projected to be \$55.9 million. In addition to the General Fund, other fund expenditures include:

Fire protection services	\$5.0 million
Street maintenance and improvements	\$1.9 million
Sewer/storm drains operations and capital projects	\$10 million
Belmont Library	\$6.3 million
RDA downtown projects and improvements	\$2.5 million

• Reserves and Projections

The City has accumulated reserves. Reserves will fund capital projects and largely account for the difference between total revenues and total expenditures. In addition, City Council has established a prudent reserve level to protect against service reductions or raising taxes and fees due to temporary revenue shortfalls or unpredicted events. The General Fund minimum reserve level is \$2 million and the maximum target reserve level is 20% of operations. The Fiscal Year 06 Budget is within these policy limits with a projected ending reserve of \$2.25 million. Furthermore, as shown on the 7 Year Trends and Projections Chart, the fund balance in future years is above the policy minimum requiring only a modest budget correction of \$172,500, to reach the maximum target reserve level. This correction could be considered at Mid Year should City Council deem it appropriate.

Message From the City Manager (continued)

Demographics

- Inflation: 1.3% increasing for the region
- Office Vacancy: 30.1% and decreasing for the City.
- Job growth: 2.6% and rising for Belmont

Revenues

- Revenues: Moderate growth on reduced base with most key categories
- Property taxes: 8.94% for Belmont and 4.8% for the Redevelopment Agency (Long term 6.0%)
- Sales Tax: One-time downward adjustment of 3.9% for Belmont (Long term 3.0 - 5.0% growth)
- Interest rates: 3.25% for investments (Long term 3.7 - 4.6%)

Operations and Capital Improvements

- Personnel costs: 2.0% cost of living adjustment for Belmont assumed (Long term 3.0 - 3.5%)
- PERS costs: 12.472% for Miscellaneous; 29.310% for Safety (Long term 15.3% Miscellaneous; 34.2% Safety)
- Supplies and services costs: 1.0% growth with exceptions for fuels, utilities, insurance, etc. (Long term 3 - 3.5%)
- Capital program: \$15.7 million allocated

State Actions

- \$740,000 net takeaway
- \$100,000 in supplemental law enforcement funds anticipated

Uncertainties

As we have seen in recent years, City budgets are dynamic and subject to outside forces. Paramount among these are the regional economy and state government finances. The first is subject to regular business cycles, and we have clearly suffered from one of the worst economic periods in generations. However, the regional economy appears to finally be in recovery. The budget assumes the recovery, which started in FY 05, continues through FY 06 with modest growth.

The state continues to pose a large and fundamentally more troubling threat to Belmont and other local governments. Over the past two decades, the State has taken more than \$7 million of revenue from the City and the amount continues to grow at nearly a million dollars a year. As a result of these actions, local governments successfully organized an initiative to protect local revenues from raids by the state. The overwhelming support of the voters towards Proposition 1A last year is clearly positive, but the state's ability to take other local government revenue is still untested.

Addressing these challenges, and the continuing escalation of personnel costs, has been a significant focus of management and staff during recent years and continued attention to them will be needed.

Conclusion

While the City is weathering the financial challenges of our time well, efforts need to continue to maintain and strengthen our position for the future. Reserves levels have improved but challenges exist with some of the special revenue funds, as discussed later in this Budget Brief. Working together, I am confident Council, staff and the community are up to the continuing challenges.

I would like to express my appreciation to all the staff for the hard work and collaboration shown in dealing with the strains of previous budget corrections and continuing to control expenditures. I would also like to thank the staff, particularly Finance Director Thomas Fil and his team, for their efforts preparing the Proposed FY06 Budget. The City is fortunate to have such a dedicated team.

Daniel Rich, Interim City Manager

Special Fund Considerations

The Recreation Fund and Development Services Fund are experiencing structural, recurring deficits. Corrective action has been taken and specific actions are as follows:

- **Recreation Fund**

- During adoption of the FY 05 Budget, City Council capped the General Fund subsidy to the Recreation Fund at approximately \$560,000. In addition, the Recreation Fund was provided a one-time operating loan of \$200,000 for the Fleet & Equipment Management Fund in FY 04. The loan is to be amortized over 5 years.

- Target subsidy levels, by program, were established for Recreation Services by the Council. Fee increases have been implemented based on the High, Medium and Low subsidy policy approved by Council. With the exception of Adults Sports, all program fees are within the established policy levels after factoring in the higher General Fund subsidy discussed above. Staff believes that in many areas, recreation fees are subject to the Elasticity of Demand Theory. In other words, as fee increases were implemented, program participation declined.

- Due to revenue shortfalls compounded by increases to fixed programmatic costs, the Recreation Fund requires a 10% increase in the subsidy to \$615,000 to close the gap. This budget shortfall requires City Council to approve a higher subsidy for Recreation Services than what is currently provided for in the policy. Furthermore, until revenues improve, the loan repayment for the Fleet and Equipment Management Fund must be deferred.

- In order to conform to the program based subsidization policy in place now, additional efforts are required with setting fees and managing costs to close the growing gap. Towards that end, during FY 06, staff proposes developing a framework to address this issue in a long-term and sustainable fashion. This will be presented for consideration by Council during its next Priority Calendar setting process.

- **Development Services Fund**

- The demand for Development Services has dropped noticeably during FY 05 and revenues estimates are down by nearly 16% from budget. FY 06 expectations have been tempered and modest revenue growth of 3.5% is projected. As a result of the drop in demand, the Development Services Fund once again faces a deficit despite corrective actions already taken. The deficit is closed by using a General Fund subsidy of nearly \$100,000 in FY 05 and FY 06. Staff is pursuing a number of steps to mitigate the effects of the structural gap for this fund. Those steps include raising engineering fees to full cost recovery, implementing new fees, such as fines and penalties for code enforcement, and studying the workload demand with the current staffing structure.

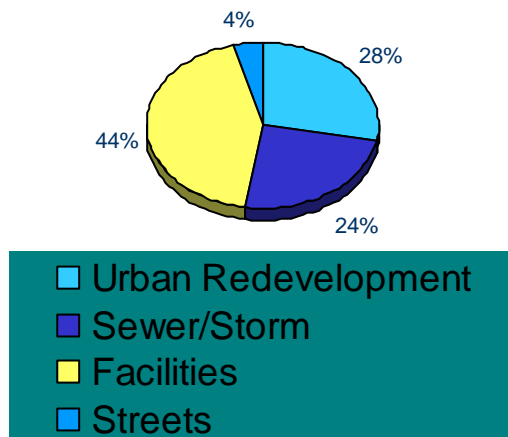
- As a result of these actions, the structural gap between revenues and expenditures for this operation will narrow and may even close. During FY 06, prudence dictates close monitoring of interim operating results to ensure the fund remains financially viable. It is also appropriate to consider if certain non-fee supported activities, such as code enforcement and Council/Commission requested zone text amendments necessitate some ongoing General Fund subsidy or restructuring.

5 Year Capital Improvement Plan and Capital Outlay Trends

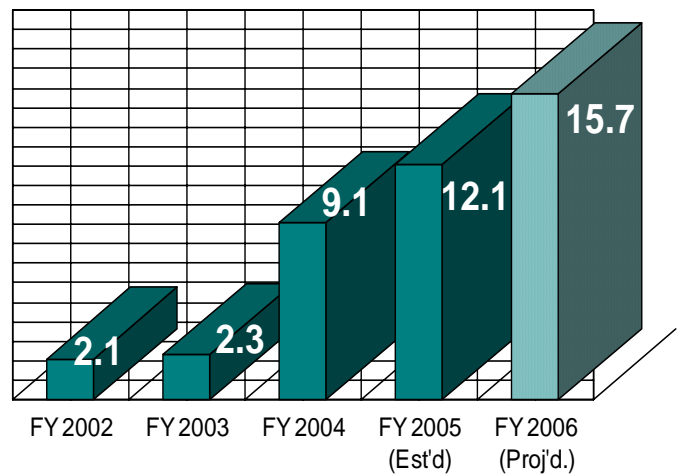
The City's 5 year CIP is estimated at \$34 million.

Projects proposed in FY 06 total \$15.7 million.

Capital Projects by Function



Capital Outlay Trends (in \$millions)



The coming fiscal year will include a very high rate of capital spending, reflecting the construction of a wide variety of projects for the community. Major projects for the upcoming year are highlighted below; the details of all projects can be found beginning in Tab 9.

- \$6.3 million for the estimated completion of the Belmont Library project
- \$3.9 million for a variety of sewer and storm drain improvements
- \$1.7 million for Emmett House, home buyer assistance and other Low to Moderate Income projects
- \$1.7 million for Redevelopment Agency projects, such as land acquisitions, gateway improvements and other street improvements
- \$0.8 million for the completion of the Police Facility/City Hall project
- \$0.7 million for a variety of street improvements
- \$0.3 million for landscape improvements and trail system maintenance

2005 - 2006 Citywide Priorities

The City Council adopted the following ten issues as priorities for its two-year term:

Police Facility / City Hall. Phase I of the project (the addition and the south wing) is now complete. Phase II of the construction is proceeding and is expected to be complete by the end of Summer 2006.

Build a New Library. Construction has begun on a new \$10.9 million 20,000 square foot library and park facilities located at the existing library site. The library is funded with a parcel tax, parks fees, grants and private donations. The new library is expected to open in Spring/Summer 2006.

Build a Bike/Pedestrian Bridge over 101. The Environmental Assessment has been approved and final plans and cost estimates are being prepared. The City has applied for several grants to fund the construction and is waiting for the passage of the new Federal Highway Bill which could add an additional \$2 million to the project.

Redevelopment Priorities. A five-year spending plan for \$4 million was adopted in 2004. Planning work for undergrounding of utilities on Old County Road has begun and construction is expected in 2006. Other projects include a façade rebate reimbursement program to improve building exteriors and street/sidewalk improvements.

The Harbor Industrial Area. A Council subcommittee is working with HIA representatives on the key issues. The City desires to resolve issues with the intention of developing a joint application for annexation in the next twelve months.

Economic Development. An Economic Development Strategy was adopted recently and the City is working to hire a full-time economic development manager. A contract with the Chamber of Commerce for certain services has been implemented.

Emmett House Redevelopment. The Council decided to relocate and refurbish the Emmett House to a vacant lot at Sixth and O'Neill. The Board of the Redevelopment Agency provided direction to develop the house with two affordable condo units.

Old City Hall Site. The Redevelopment Board has received two proposals for development of the Old City Hall site on 5th Avenue, between O'Neill and Broadway. It is considering its options for this site, including selling it.

Parking Issues. A number of parking-related items were considered by the Council in the past year, including residential parking permits, parking on private property, and parking standards related to development.

Improvements to the Development Review Process. The City has implemented nearly all of the recommendations of a December 2001 consultant's report. The "one-stop" Permit Center is now located on the first floor, easily accessible to the Public. as been open for two years and will be located on the first floor of the renovated City Hall. The Council has convened a task force to explore additional improvements and efficiencies to the City's permit services which is expected to present recommendations at the end of 2005.

Department Initiatives

The administrative departments provide direction and support the entire organization. The **City Manager's Office** will focus on continued implementation of Council's Priority Calendar and other policy direction, as well as moving forward on fire services and economic development. The **Information Services Division** will install an Interactive Voice Response system for the Permit Center and begin implementation of an E-commerce solution for the City's website. The **City Clerk's Office** will be managing the election of three Council members in the November 2005 Municipal Election as well as continue expanding the document imaging and agenda preparation system, which allows electronic storage and retrieval of public documents. **Human Resources** will focus on providing support to departments and employees to meet evolving needs, improve employee safety training, and negotiate a new labor agreement with the Belmont Police Officers Association. The **Finance Department** initiatives for the year include enhancement of reporting to the City and Council, continuing implementation of the comprehensive financial information system, and overseeing construction of the new Belmont Library.

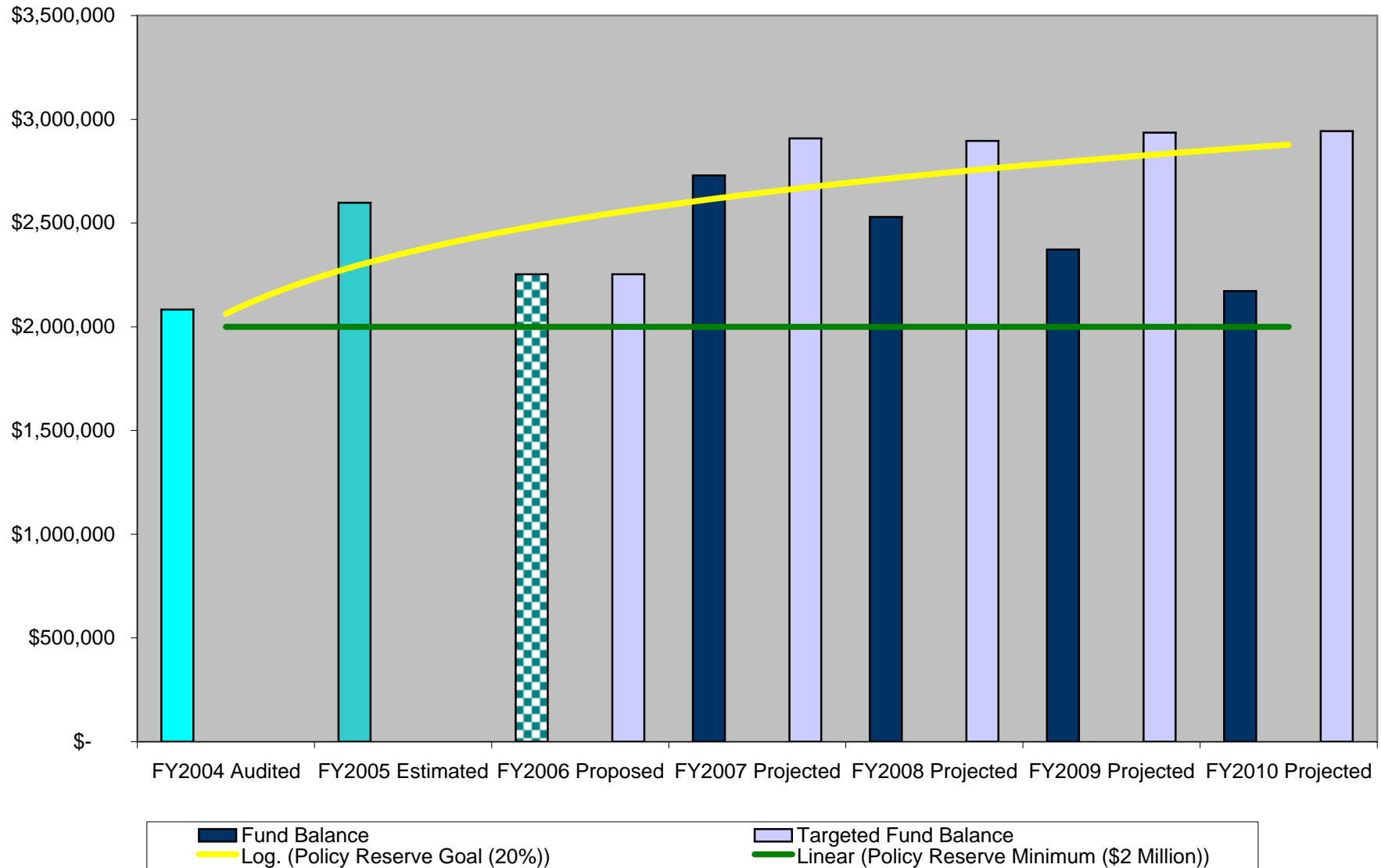
The **Community Development Department** will continue to enhance customer service now that the Permit Center has been relocated to the first floor of the renovated City Hall. A citizen Task Force will develop recommendations for improving the permitting process. Staff will propose a new noise control ordinance, as well as various zoning revisions to better protect neighborhoods, assure appropriate development and improve the look of downtown. The department will assist in implementing a variety of economic development projects. Other important projects include the relocation and remodel of the Emmett House, developing improvement plans for the CalTrain station and the surrounding areas, planning for affordable housing, and development of hearing process for code enforcement.

The **Parks & Recreation Department** will again offer a wide variety of special events and activities for the community. The Belmont Certified Farmers' Market is held every Sunday at the Cal-Train parking lot south of Ralston Avenue from May through November. The Twin Pines Art & Wine Festival, named the "The Belmont Festival in the Park" will be held on September 17th & 18th and will be operated jointly by the City and Belmont Chamber of Commerce. The Recreation Division offers programs for all ages and interests, as well as providing facilities for private parties, weddings, banquets, and community meetings. The old Police Facility in Twin Pines Park will be demolished and replaced with new landscaping and pathways.

The **Police Department** will focus on five key areas: Traffic-Improve the safe flow of traffic through a combination of traditional enforcement, educational endeavors, and the application of resources found throughout the community to seek lasting solutions to traffic issues; Performance Budgeting-Continue to restructure the Police Department to facilitate the successful implementation of the Service Delivery Initiative; Community/Problem Oriented Policing-Seek to strengthen collaborations with our residents, community groups, and schools that have helped establish and maintain the quality of life our residents enjoy -- striving to obtain long-term solutions to community problems using all available resources will continue to be a major police emphasis; Safety and Emergency Preparedness-Maintain the safety and security of our residents by actively preparing for a possible natural or man-made disaster; and Effectiveness-Operate in a fiscally responsible manner by maximizing grants, pursuing efficiencies, and exploring collaborations with other entities.

The **Public Works Department** will continue to provide a high level of customer service to both the community and other departments in the environmental, fleet maintenance and transportation areas. The Department has recently implemented a more cost effective approach for videoing, maintaining, and undertaking emergency repairs of the sewer system. Significant sewer and storm drain capital improvement projects are being designed and will go out for construction. The available funding for the roadway projects will be continued to be monitored. Once the funding picture is clearer at a State and Federal levels, the Pavement Management Plan will be submitted to Council for adoption and implementation. Staff will work with residents and businesses to address parking and traffic concerns. Grants will be pursued to fund additional roadway improvements and the Pedestrian and Bicycle Bridge.

General Fund Balance - 7 Yr Trends & Projections



City of Belmont
FY 2006 Budget
General Fund and Subsidized Funds
Seven Year Trends & Projections
FY2004 - FY2010



Fund		Major	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Number	Description	Sources & Uses	Audited	Estimated	Proposed	Projected	Projected	Projected	Projected
101 General Fund		Sources							
	Property tax		\$ 1,977,535	\$ 4,072,723	\$ 4,155,952	\$ 4,405,309	\$ 4,669,628	\$ 4,903,109	\$ 5,148,265
	Sales tax		2,697,933	2,818,514	2,709,498	2,817,878	2,958,772	3,106,710	3,262,046
	Transient occupancy tax		737,677	885,082	932,318	1,034,873	1,148,709	1,206,144	1,266,452
	Other taxes		1,043,853	989,573	1,080,176	1,134,185	1,190,894	1,250,439	1,312,961
	License & permits		707,756	662,861	671,478	691,622	715,829	740,883	766,814
	Use of money & property		149,423	223,007	294,007	379,508	417,459	448,768	471,207
	Intergovernmental		1,397,619	556,839	528,938	530,260	531,586	532,915	534,247
	Service charges		2,271,064	2,375,331	2,629,570	2,708,457	2,803,253	2,901,367	3,002,915
	Miscellaneous & other		628,145	517,989	408,200	428,610	450,041	472,543	496,170
	Non-subsidized transfers		115,897	-	-	-	-	-	-
	Subtotal		11,726,902	13,101,919	13,410,137	14,130,703	14,886,170	15,562,879	16,261,075
	Uses								
	General government		3,253,842	2,933,416	3,412,159	3,431,584	3,595,028	3,697,036	3,863,152
	Public safety		6,319,486	6,536,868	7,553,926	7,905,499	8,265,814	8,605,079	8,926,563
	Highways & streets		-	-	-	-	-	-	-
	Culture & recreation		1,230,277	1,262,629	1,385,039	1,436,348	1,492,552	1,548,313	1,605,196
	Miscellaneous & other		32,451	276,989	275,819	284,094	294,037	304,328	314,980
	Non-subsidized transfers		(139,495)	129,228	121,353	-	-	-	-
	Subtotal		10,696,561	11,139,130	12,748,296	13,057,524	13,647,430	14,154,756	14,709,892
	Gross Available		1,030,341	1,962,789	661,841	1,073,178	1,238,740	1,408,122	1,551,183
205 Recreation		Sources							
	Service charges		820,304	835,445	865,935	987,166	1,046,396	1,109,180	1,175,730
	Miscellaneous & other		70,584	75,439	62,875	66,019	69,320	72,786	76,425
	Other financing sources		-	-	-	-	-	-	-
	Subtotal		890,888	910,884	928,810	1,053,185	1,115,716	1,181,965	1,252,155
	Uses								
	Recreation		1,500,138	1,480,009	1,604,409	1,665,233	1,731,237	1,796,274	1,862,713
	Non-subsidized transfers		72,253	61,066	-	-	-	-	-

City of Belmont
FY 2006 Budget
General Fund and Subsidized Funds
Seven Year Trends & Projections
FY2004 - FY2010



Fund		Major	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Number	Description	Sources & Uses	Audited	Estimated	Proposed	Projected	Projected	Projected	Projected
	<i>Subtotal</i>		1,572,391	1,541,075	1,604,409	1,665,233	1,731,237	1,796,274	1,862,713
	<i>Net difference</i>		(681,503)	(630,191)	(675,599)	(612,048)	(615,522)	(614,309)	(610,558)
	<i>Fund Balance Availability</i>		(104,921)	72,253	61,066	-	-	-	-
	<i>Subsidy Requirement</i>		786,424	557,938	614,533	612,048	615,522	614,309	610,558
231 Street Maintenance		Sources							
	<i>Gas tax</i>		709,950	721,735	742,965	754,109	765,421	776,902	788,556
	<i>Service charges</i>		-	301,503	238,110	-	-	-	-
	<i>Miscellaneous & other</i>		29,459	50,920	6,402	6,722	7,058	7,411	7,782
	<i>Other financing sources</i>		-	-	-	-	-	-	-
	<i>Subtotal</i>		739,409	1,074,158	987,477	760,832	772,479	784,314	796,338
		Uses							
	<i>Highways & streets</i>		1,221,388	1,004,672	1,164,115	1,205,369	1,251,400	1,297,478	1,344,663
	<i>Capital outlay</i>		-	-	-	-	-	-	-
	<i>Non-subsidized transfers</i>		-	448,200	8,220	-	-	-	-
	<i>Subtotal</i>		1,221,388	1,452,872	1,172,335	1,205,369	1,251,400	1,297,478	1,344,663
	<i>Net difference</i>		(481,979)	(378,714)	(184,858)	(444,538)	(478,920)	(513,165)	(548,325)
	<i>Fund Balance Availability</i>		-	-	436,329	251,470	-	-	-
	<i>Subsidy Requirement</i>		481,979	378,714	-	193,068	478,920	513,165	548,325
General Obligation Debt		Sources							
401 Service									
	<i>Miscellaneous & other</i>		76	23	34	-	-	-	-
	<i>Non-subsidized transfers</i>		-	-	-	-	-	-	-
	<i>Subtotal</i>		76	23	34	-	-	-	-
		Uses							
	<i>Debt service</i>		102,516	68,243	59,666	62,649	38,265	-	-
	<i>Transfers</i>		-	-	-	-	-	-	-
	<i>Subtotal</i>		102,516	68,243	59,666	62,649	38,265	-	-
	<i>Net difference</i>		(102,440)	(68,220)	(59,631)	(62,649)	(38,265)	-	-

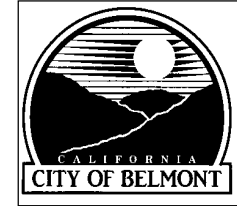
City of Belmont

FY 2006 Budget

General Fund and Subsidized Funds

Seven Year Trends & Projections

FY2004 - FY2010



Fund		Major	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Number	Description	Sources & Uses	Audited	Estimated	Proposed	Projected	Projected	Projected	Projected
		<i>Fund Balance Availability</i>	177	-	-	-	-	-	-
		<i>Subsidy Requirement</i>	102,263	68,220	59,631	62,649	38,265	-	-
625 Facilities Management		Sources							
		<i>Service charges</i>	513,109	504,525	559,130	587,087	616,441	647,263	679,626
		<i>Use of money & property</i>	296,338	280,155	282,209	296,319	311,135	326,692	343,027
		<i>Other financing sources</i>	-	-	-	-	-	-	-
		<i>Subtotal</i>	809,447	784,680	841,339	883,406	927,576	973,955	1,022,653
		Uses							
		<i>General government</i>	990,795	921,876	988,496	1,125,831	1,285,673	1,466,294	1,671,561
		<i>Non-subsidized transfers</i>	-	60,392	-	-	-	-	-
		<i>Subtotal</i>	990,795	982,268	988,496	1,125,831	1,285,673	1,466,294	1,671,561
		<i>Net difference</i>	(181,348)	(197,588)	(147,157)	(242,425)	(358,097)	(492,339)	(648,908)
		<i>Fund Balance Availability</i>	32,152	-	60,392	-	-	-	-
		<i>Subsidy Requirement</i>	149,196	197,588	86,765	242,425	358,097	492,339	648,908
General Fund Balance									
	Net Available		(489,521)	760,329	(99,088)	(37,012)	(252,064)	(211,690)	(256,608)
	FY 2006 Proposed State Impact		-	(245,226)	(245,226)	512,360	52,553	54,392	57,112
	Beginning Fund Balance		2,572,185	2,082,664	2,597,767	2,253,453	2,728,801	2,529,290	2,371,992
	Projected Ending Fund Balance		\$ 2,082,664	\$ 2,597,767	\$ 2,253,453	\$ 2,728,801	\$ 2,529,290	\$ 2,371,992	\$ 2,172,496
	Reserve Requirement		\$ 2,167,211	\$ 2,201,980	\$ 2,525,389	\$ 2,611,505	\$ 2,729,486	\$ 2,830,951	\$ 2,941,978
	Target Correction		N/A	N/A	\$ 172,500	\$ 179,400	\$ 187,473	\$ 196,847	\$ 206,689
	Targeted Ending Fund Balance		N/A	N/A	\$ 2,253,453	\$ 2,908,201	\$ 2,896,163	\$ 2,935,711	\$ 2,942,904

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